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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 106
21 JUNE to 27 JUNE 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

All other Far Eastern developments this week paled in comparison to the unexpected Communist invasion of southern Korea. At this writing, it is doubtful whether cohesive southern Korean resistance will continue beyond the next 24 hours (see map and report, pp. 1-2). In the context of this climactic event, Indian Prime Minister Nehru has completed a tour of Southeast Asia, during the course of which he departed from his usual anti-imperialist theme and outspokenly denounced Communism in the area (p. 1). Meanwhile, it is estimated that, while the Chinese Communist probably will not take an active role in the Korean war, the strength or weakness of US efforts to assist the southern Korean regime may well govern the future Chinese attitude toward Taiwan and Indochina (p. 3).

Elsewhere, US observers complained of French stalling in Indochina (p. 5), and the Burmese Socialist Party's impending split over East-West orientation may be affected by the Korean attack (p. 6).

NEWS NOTES

Japan cabinet to resign...UK-run mines in China make export sale...
Picture from Peiping shows Party ranks...USSR trade in Thailand suffers...
Communist actions mount in Singapore..."Turk" Westerling up for deportation...
Australian Senate Labor bloc stalls legislation.

(NOTE: Section III is devoted to a summary of the developments leading to a unitary state in Indonesia.)

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

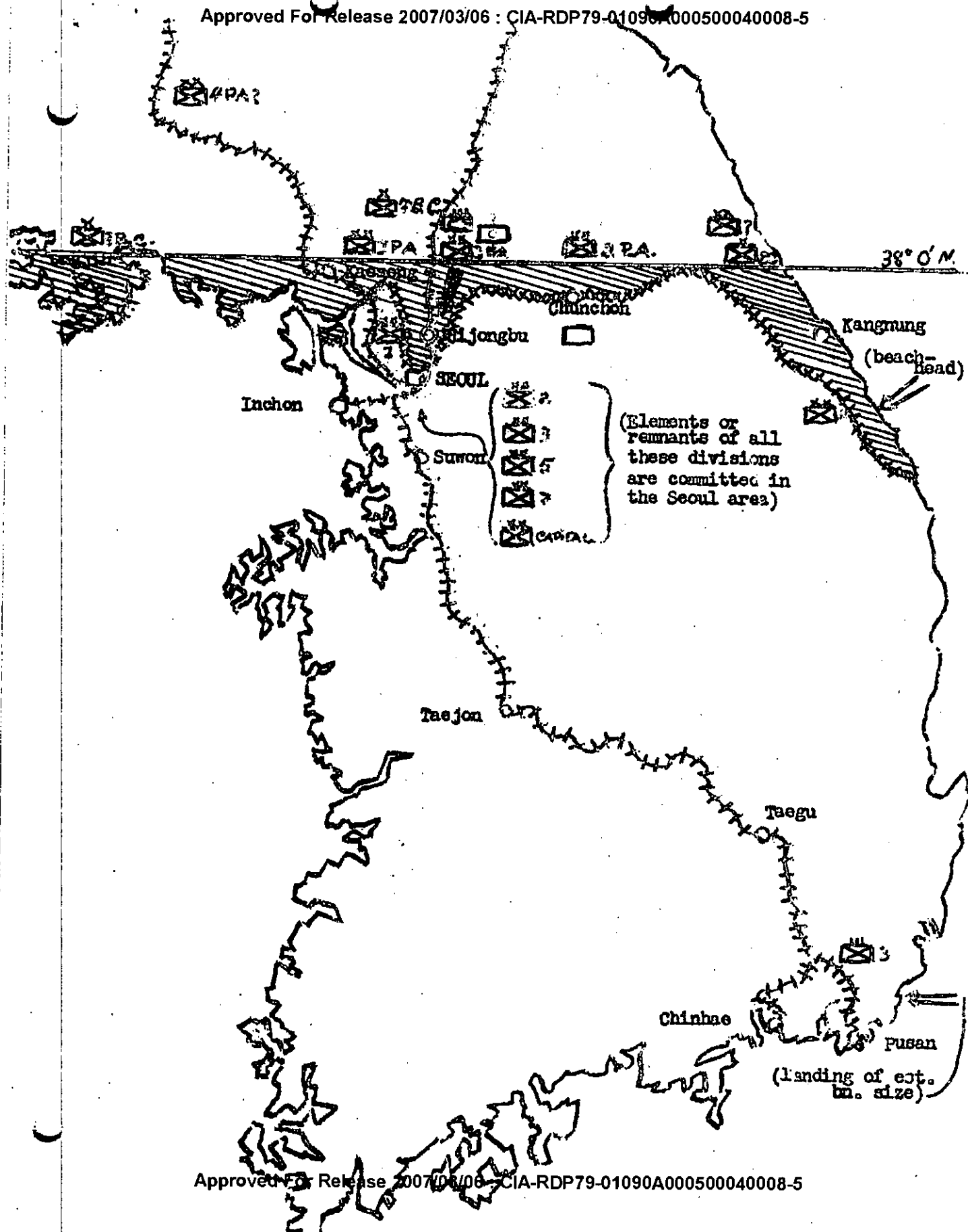
Nehru ends successful tour of Southeast Asia--India's Prime Minister, Pandit Nehru, has completed a highly successful tour of Indonesia, Malaya and Burma, during which he was enthusiastically welcomed by all except the local Chinese and Communists. Although many observers feared that Nehru would take this opportunity to denounce Western colonialism in Southeast Asia, he instead advocated cooperation between Asia and the West and launched a totally unexpected and surprisingly violent attack upon Communism. While he continued to maintain that the strongest force in Asia was nationalism and that colonial imperialism would soon disappear, Nehru warned that imperialism survives "in other forms" even though it might speak in terms of freedom and social change. "B"

Nehru advised the Indonesians not to sever all their ties with the Netherlands, admitted the necessity for continued British suzerainty over Malaya for the present, and tried to point out the advantages of foreign investments to the Burmese. Specifically regarding Communism, Nehru indicated his belief that Communism was losing ground because it had "not only parted company with nationalism, but opposed it." He characterized Communist activity in Malaya as "excessively harmful" and not to be tolerated and, in Rangoon, denounced the Burmese Communists for killing "innocent women and children in their beds."

The large crowds which turned out to hear the Indian leader and the obvious respect with which he was treated by his official hosts are clear evidence that Nehru made a strong and favorable impression throughout the area, not only enhancing his own personal prestige in Southeast Asia, but also that of India. By strengthening popular understanding between India and the countries of Southeast Asia, Nehru has probably bolstered India's prospects for spiritual, if not de facto, leadership of non-Communist Asians. Finally, Nehru may have lent encouragement to the moderates who now control the Governments of Burma and Indonesia, as well as the incipient Malay nationalist movement, to stiffen their resistance to Communist encroachments and thus indirectly strengthened the Western position in Southeast Asia at this critical time.

KOREA

Puppet invaders continue advance--On the fourth day of the surprise northern Korean invasion of southern Korea, the puppet People's Army is continuing to make progress in what appears to be the primary mission of capturing the southern capital of Seoul (see map). Thusfar, 4 divisions of the People's Army and 2 brigades of puppet Border Constabulary have "A"



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been identified in action. Armor, with estimates running as high as 70 medium and light tanks, is in use and the northern Korean air force has been involved in limited action.

Reports just before midnight of 26 June indicate that the capture of Seoul is imminent and all available southern troops have been committed to the defense of the city. No concerted attempt is being made by southern forces to withdraw for continued resistance south of the capital and at least one of the four divisions in the Seoul area has been demoralized and cut up. Meanwhile, critical ammunition shortages are developing and it appears that the evident demoralization of the high command is affecting southern troops.

President Rhee and his Cabinet are reported officially to have left Seoul for an unknown southern destination and the Republic's Premier, British Merchant Marine-trained Shin Sungmo, reportedly despairing of "saving anything", has handed over full authority to Army Chief of Staff Chae Byongduk. In Chae's opinion, resistance is useless after the fall of Seoul. In the light of these multiple circumstances and the estimated ability of the invading People's Army to launch further large-scale offensives all along the line, it is problematical whether cohesive southern Korean resistance will continue beyond the next 24 hours.

CHINA

Communist China's role in Korean conflict—Although the Chinese Communists are not expected to play a major role in the Korean invasion, Chinese Communist leaders may regard Korea as a testing-ground for determining the intentions of the West, and Western policy toward the support of South Korea may be reflected in Peiping's policy toward both Taiwan and Indochina.

"A"

The Peiping regime has had a continuing interest in strengthening northern Korean forces for eventual military action against the southern Republic. While the Chinese Communists probably exert no independent influence on the northern Korean regime and have no voice in the formulation of northern Korean policy, a possible total of 20-30,000 Korean troops from Manchurian units of the People's Liberation Army have been transferred to northern Korea over the past few years, together with unknown amounts of materiel. While it is not anticipated that regular Chinese Communist forces will appear in the Korean conflict, some sixty to seventy thousand additional troops of Korean extraction are available in Manchuria for transfer to the North Korean forces, should this prove necessary.

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There is no necessary connection between events in Korea and Peiping's intentions toward Taiwan. If Western action in support of the Republic of Korea is ineffectual, however, the Peiping regime might be encouraged to proceed rapidly with the invasion of Taiwan. Effective Western action in Korea, in turn, might delay the invasion of Taiwan indefinitely: on the other hand, if a Korean operation were to involve the bulk of Western resources available in Asia, it might well inspire a Chinese Communist blow against Taiwan at an early date.

The invasion of Indochina by regular Chinese Communist forces has been regarded as improbable in 1950. The invasion of South Korea by North Korean forces does not necessarily imply any change in international Communist strategy as regards the employment of the armed forces of Communist regimes against non-Communist states. Korea is an independent country where the northern puppet's aggression can be uniquely disguised as a civil conflict, and the hands of the USSR and Communist China are technically clean. Regardless of developments in Korea, a Chinese Communist invasion of Indochina continues to be unlikely so long as French capabilities do not improve. However, the past disinclination of Moscow and Peiping to commit Chinese Communist forces to action in Indochina is believed to have derived in part from the risk of provoking a third world war. If the North Korean adventure does not evoke any strong Western response, the USSR and Communist China might reformulate their strategy for Southeast Asia in this light.

High 1950 goal set for Manchurian steel industry—The 1950 production plan for heavy industry in Manchuria, presented by Kao Kang, Chairman of the Northeast People's Government in March 1950, has now been released in full. The established goals will require the full-time operation of nearly all Manchurian plants which remain, following wartime demolitions and Soviet removals. The 1950 quotas for the iron and steel industry are 720,000 tons of pig iron, 540,000 tons of steel ingots and 340,000 tons of rolled steel, in contrast to estimates for existing Manchurian capacity of 540,000, 500,000 and 500,000 tons respectively. 1/ The ambitious scope of the Communist plan emphasizes the fact that the Northeast is the only sizable industrial area in China which also possesses a heavy industrial base, with ferrous resources surpassing those of any other area in quantity.

"C"

The 1950 iron and steel goals correspond closely to the estimated capacity of the two Northeast iron and steel centers, Anshan and Penchiu. The Communists, however, will be faced with several difficulties in attaining near-capacity output. Chief among these is the

1/ 1946 Pauley report figures: the Communists have repaired two more blast furnaces than the Pauley investigators counted on, a fact which explains the apparent discrepancy in pig iron figures.

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problem of iron ore supply. In contrast to last year's goal of 100,000 tons of ore, the 1950 output would have to exceed a million tons. Owing to the almost complete destruction and removal of ore-concentrating equipment, moreover, only high-grade ore, which is harder to mine, is processable in the blast furnaces. Other production problems will arise from the lack of key machinery and the inadequacies of adjunct industries such as electric power and cement. It is noteworthy that the Japanese in Manchuria never attained more than 70% of capacity.

The lack of diversification in Manchuria's steel-finishing plant poses an additional problem. Finishing mills, whose capacity is estimated at 300,000 tons, are able to produce only small industrial shapes, such as concrete reinforcing bars. An increased output would therefore be one-sided in character, and its satisfactory utilization in any reconstruction program would require the concurrent importation of larger shapes from abroad.

The physical difficulties of attaining capacity production and the necessity of imports may compel the Communists to lower their sights in 1950. Nevertheless, in view of the high priority assigned to the iron and steel industry in Manchuria, the extent to which the Communists attain their 1950 plan will be a good measure of their all-round economic capabilities. Even if they attain only half the declared 1950 goal, the Chinese Communists will have succeeded in more than doubling their 1949 Manchurian production.

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INDOCHINA

US Legation Saigon, in turn, has surveyed the local scene and reports that the emergence of Vietnam from colonialism is neither so advanced nor so assured as it would appear on paper or from French declarations. It is difficult to determine just how much authority has

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actually been transferred and where the locus of authority lies in services supposedly handed over, in process of transfer, or to be transferred by a decision of the Interstate Conference. In the case of services already "transferred", parallel services continue to exist. Control of finances, foreign trade and customs, and armed forces is still firmly in the hands of the French.

The French contend that their withdrawal from a position of authority would create a dangerous political vacuum in view of the Bao Dai Government's failure to establish a competent administration resting on a solid popular foundation. It is nonetheless evident that the French themselves are largely responsible for this state of affairs. The tenacity of French office-holders in the Indochina civil service, their general refusal to assume subordinate positions with respect to Vietnamese administrators, the stickiness of the French in relinquishing to the Vietnamese certain administrative facilities (the palace at Saigon is the most conspicuous example), and the insistence by the French Government that no foreign technicians shall be employed by the State of Vietnam, all have rendered Bao Dai's task of assembling a competent administration, responsible to him, an almost insuperable one. The few Vietnamese possessing the technical skills essential to modern government are not attracted to a regime which the French themselves seem often not to take seriously. Thus, lacking the capacity to attract able Vietnamese and the right to hire foreign experts, the State of Vietnam finds itself incapable of establishing the type of self-reliant government on which mass support and psychological victory over the Communist-led Resistance ultimately depends.

BURMA

South Korea issue and Socialist split—High Burmese authorities and moderate Socialists have stated that the smoldering conflict between moderates and pro-Communists is about to be climaxed by the expulsion of the left wing both from the Government and from the influential Burma Socialist Party (BSP), with the Party simultaneously throwing its full support behind Prime Minister Thakin Nu. The split in the BSP will probably develop within the next few weeks and may be hastened by the leftists' withdrawing before being formally read out of the party.

BPM

There are no indications that the pro-Communists are preparing to go underground. Instead, it seems likely that they will seek to form a new political organization which would openly support international Communism, in opposition to the present Burmese Government and its Socialist supporters. Such a development would clear the befogged political atmosphere in Rangoon, considerably, and would seem to commit the BSP to a policy of increasing cooperation with the West.

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Since the friction within the BSP is primarily a matter of Burma's orientation as between East and West, however, the implication of the invasion of southern Korea --while it may cause an initial hardening of the moderate Socialists' attitude-- could bring the moderates pause and cause them to reconsider before committing themselves to an anti-Communist position from which it would be difficult to retreat. On balance, the removal of the pro-Communist fraction from the BSP presently appears to be a better than 50-50 chance.

NEWS NOTES

All Japanese Cabinet Ministers, except the Premier, are to tender their resignations, thus paving the way for the formation of a new YOSHIDA Cabinet. The Liberal Party decision to broaden the bases of responsibility for whatever future commitments Japan and the West may mutually agree upon has been strengthened by recent events and the Government plans to present a unified non-Communist policy on foreign affairs through the medium of a coalition cabinet. If a coalition cabinet cannot be formed, the Liberals will at least be in a position to justify their future conduct on the basis of being the Party which could not escape responsibility for what the Japanese Government may consider unhappy but necessary decisions. Meanwhile, a lack of "impartiality" in the coverage of the present Korean situation by AKAHATA, official Japanese Communist daily, has resulted in a SCAP order to suspend publication for 30 days.

The UK's largest active China investment, the Kailan Mining Administration, may have prolonged its life considerably by a reported sale of a million tons of coking coal to Japan. A recently signed one-year agreement with the state-owned coal company returned to KMA the exclusive right to export its own coal, although the state company will continue to handle most domestic sales. The Communists expect to nationalize the coal industry eventually, but they evidently recognize the superior ability of KMA's management to operate the mines and export coal and appear willing for the time being to let the British retain their interest in the Kailan mines.

A May Day photograph from Peiping may shed some light on relations between CCP Chairman MAO Tse-tung and Party theoretician LIU Shao-chi, commonly cited as the leading contender for MAO's job. MAO is shown with upraised arm, returning the salute of the acclaiming demonstrators, while four other leaders of the Peiping regime are grouped about MAO with folded arms. LIU, the sixth man, has been halted, either by the camera or by himself, in the act of starting or completing a gesture of acknowledgement like MAO's. The expression on LIU's face, that of

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one apprehended while stealing cookies or profaning a shrine, suggests that LIU is conscious of committing or narrowly averting an act of outrageous lese-majesty. Nevertheless, while LIU is still some distance from challenging MAO's position as Number One, the Chinese Communist press consistently places LIU immediately behind MAO in its lists of Party leaders, and it seems likely that LIU, who is standing on MAO's right in the picture, is in fact the CCP's Number Two.

Soviet products cannot compete with lower-priced Japanese wares in Thailand

[redacted] the USSR is not particularly interested in the Thai market until Soviet vessels can make regular calls at Bangkok, but [redacted] keen interest in the market potential of Communist China.

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Increased subversive activity in Singapore, particularly among labor organizations, comprising employees of the Government and of the Armed Forces, indicates more aggressiveness and improved techniques on the part of the Communists. A number of well-executed acts of sabotage have taken place in which squads of 4 or 5 "shock troops" have been used to cover the flight of arsonists. In one of these, a rubber warehouse with a stock valued at US \$250,000 was destroyed. Authorities in Singapore now predict continuing and possibly increasing sabotage and subversion within the city.

"Turk" Westerling, the ex-KNIL officer whose rebel forces briefly held the city of Bandung last January, will appear at a Singapore court on 5 July for a hearing on the question of his extradition to Indonesia (under provisions of a British-Netherlands extradition treaty). Delay in the proceedings, which were requested by the Indonesians following Westerling's arrest for illegal entry into Singapore in February was caused originally by faulty preparation of the Indonesian case and later by the unearthing of new evidence purporting to show Westerling's criminal involvement in the alleged massacre of 40,000 people in South Celebes in 1946. Since Westerling was at that time an officer in the KNIL, his defense may now officially involve the Dutch government and may result in a further strain on Netherlands-Indonesian relations.

The Labor-controlled Australian Senate has delayed or rejected all important government legislation, except an appropriation bill and the child endowment bill, in the session of Parliament which is about to end. A second session will reconvene late in September, at which time the Labor Party will have to decide whether or not to continue its obstructionist tactics to the point possibly of forcing a dissolution of Parliament and the calling of new elections. Meanwhile, state elections during the past three months do not indicate any increase in Labor's strength; rather, they have demonstrated either a continuance of the status quo or a moderate decline in Labor's popularity.

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SECTION III. The Unitary State in Indonesia

Two distinct and often opposing groups of Indonesians participated in the creation of the USI: Republicans—who represented the 1947 Republic of Indonesia (including only Java, Sumatra and Madura); and Federalists—who represented other parts of the Indonesian archipelago, and were willing to work with the Dutch toward eventual independence. Although Federalist influence was actually strongest in the scattered islands of East Indonesia, the Dutch had extended military control over former Republican areas and had sponsored the creation of separate states in such areas, both in Java and Sumatra. By November of 1949, the 1947 Republic had been reduced to a small area in central Java and some relatively undeveloped parts of Sumatra, while the proposed federal structure of the USI included 16 areas with differing degrees of autonomy. The three most important states, or "Negaras", in the proposed structure were (1) the reduced version of the Republic of Indonesia, (2) East Indonesia, and (3) East Sumatra.

The Indonesian government, which was granted sovereignty in December 1949, was composed largely of leaders of the former Republic. Sukarno, the new President, and Hatta, the new Prime Minister, had held the same positions in the Jogjakarta government. Federalists, in turn, headed the Ministries of Interior and Information, as well as two ministries without portfolio.^{1/} In general, the first USI cabinet was moderate in character.

Within a few weeks, the trend toward a unitary state had become apparent. Pro-Republican sentiment was strong in nearly all of the areas which had once been under Republican control and, while the majority of the 15 Dutch-sponsored states appeared too artificial to endure, the move for a unitary state was furthered by the vigorous actions of the aggressive nationalists who had gained control of the Jogjakarta Government after the more moderate Republican had become USI officials.

Jogja propagandists and elements of the former TNI accelerated the dissolution of the Dutch-sponsored Negara governments in areas adjacent to the Republic and, although most Indonesians probably favored a more simplified form of government than the federal structure, the USI differed with Jogja over the method of achieving this end. The USI wished to achieve a unitary state by means of deliberate and formal methods: the Jogjakarta Republic cared little about the methods used.

At present, this conflict in views is being settled by compromise between the two elements. On 19 May, the USI, acting in behalf of the

^{1/} One of these latter, Sultan Hamid of West Borneo, has been removed and is currently under arrest for masterminding a plot to overthrow the USI by force.

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states of East Sumatra and East Indonesia, reached an agreement with the Jogja Republic which will abolish the federated USI and form a unitary state. The new governmental structure, which is expected to become effective by August, will have a constitution combining features of the USI's provisional constitution with essentials of the earlier Jogjakarta constitution. Under the agreement, the USI senate will be dissolved and the new provisional parliament will combine the former USI House of Representatives with the Jogja Parliament's Working Committee, and additional members of parliament will be appointed by President Sukarno.

There are several apparent disadvantages to the elimination of the federated structure. From the US viewpoint, one of the more serious is the decision to incorporate much of the socialistic language of the old Jogja constitution into the new constitution, and action which may well diminish opportunity and incentive for investment by private US interests. The new structure may also enhance the opportunities of pro-Communist and ultra-nationalist elements who are strong in the Jogja regime. There is also a possibility that the provisions in the Hague agreements concerning "self-determination" or free expression of the desires of the population regarding the ultimate status of territories in Indonesia will tend to be ignored.

A more optimistic view considers the unitary state inevitable and more suited than a federated structure to a new government which is short of capable administrators and unable to support a multiplicity of expensive local governments. There is also the hope that a centralized authority will suppress friction between local military and civil units. Prime Minister Hatta has assured the Indonesian people that formation of a single state will not affect the Round Table agreements and that the state would assume only a temporary character until a constituent assembly has been set up and steps toward self-determination taken.

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